CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
September 16, 2020
REVISED

Hayes Valley North, located at 650 Linden Street in San Francisco, requested $2,762,912 in annual federal tax credits, but is being recommended for a reservation of $2,676,174 in annual federal tax credits to finance the acquisition and rehabilitation of 83 units of housing serving tenants with rents affordable to households earning 50-60% of area median income (AMI). The project will be developed by McCormack Baron Salazar, Inc. and is located in Senate District 11 and Assembly District 17.

Hayes Valley North is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Hayes Valley Apartments Phase I (CA-1995-069). See **Resyndication and Resyndication Transfer Event** below for additional information. The project will be receiving rental assistance in the form of HUD Section 8 Project-based Vouchers and HUD Rental Assistance Demonstration Program (RAD) Vouchers.

Project Number	CA-20-641	
Project Name	Hayes Valley North	
Site Address:	650 Linden Street	
	San Francisco, CA 94102	County: San Francisco
Census Tract:	6075016300.00	

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$2,762,912	$0
Recommended:	$2,762,912	$0

Applicant Information

Applicant:	Hayes Valley III, L.P.
Contact:	Adhi Nagraj
Address:	720 Olive Street, Suite 2500 St. Louis, MO 63101
Phone:	415-800-0528
Email:	adhi.nagraj@mccormackbaron.com

General Partner(s) or Principal Owner(s):	Hayes Valley III MBS GP, Inc. SFHDC Hayes Valley North LLC
General Partner Type:	Joint Venture
Parent Company(ies):	MBA Properties, Inc. San Francisco Housing Development
Developer:	McCormack Baron Salazar, Inc.
Investor/Consultant:	RBC Community Investments
Management Agent:	The John Stewart Company

Project Information

Construction Type:	Acquisition & Rehabilitation
Total # Residential Buildings:	7
Total # of Units:	84
No. / % of Low Income Units:	83 100.00%
Federal Set-Aside Elected:	40%/60%
Federal Subsidy:	Tax-Exempt / HUD Section 8 Project-based Vouchers (34 Units / 40%) and HUD RAD Vouchers (17 Units / 20%)

Bond Information

Issuer:	CalHFA
Expected Date of Issuance:	December 1, 2020

Information

Housing Type:	Non-Targeted
Geographic Area:	San Francisco County
TCAC Project Analyst:	Jack Waegell

55-Year Use / Affordability

Aggregate Targeting Number of Units		Percentage of Affordable Units
50% AMI:	33	40%
60% AMI:	50	60%

Unit Mix

47	2-Bedroom Units
31	3-Bedroom Units
6	4-Bedroom Units
84	Total Units

Unit Type & Number		2020 Rents Targeted % of Area Median Income	2020 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
7	2 Bedrooms	50%	46%	$1,814
17	2 Bedrooms	50%	30%	$1,186
6	2 Bedrooms	60%	56%	$2,177
6	2 Bedrooms	60%	56%	$2,177
11	2 Bedrooms	60%	47%	$1,821
7	3 Bedrooms	50%	46%	$2,096
9	3 Bedrooms	60%	56%	$2,515
10	3 Bedrooms	60%	56%	$2,515
4	3 Bedrooms	60%	40%	$1,806
2	4 Bedrooms	50%	46%	$2,338
2	4 Bedrooms	60%	56%	$2,805
2	4 Bedrooms	60%	56%	$2,805
1	3 Bedrooms	Manager's Unit	Manager's Unit	$0

Project Cost Summary at Application

Land and Acquisition	$28,700,000
Construction Costs	$0
Rehabilitation Costs	$39,045,964
Construction Hard Cost Contingency	$5,857,000
Soft Cost Contingency	$558,800
Relocation	$2,327,208
Architectural/Engineering	$1,952,043
Const. Interest, Perm. Financing	$5,596,763
Legal Fees	$340,000
Reserves	$801,305
Other Costs	$2,936,779
Developer Fee	$5,500,000
Commercial Costs	$0
Total	**$93,615,862**

Residential

Construction Cost Per Square Foot:	$327
Per Unit Cost:	$1,114,475
True Cash Per Unit Cost*:	$762,543

Construction Financing

Source	Amount
Chase Bank - Tax-Exempt	$49,000,000
SF MOHCD - Gap Loan	$1,856,307
SFHA Seller Note	$27,762,277
Accrued Interest on Soft Loans	$1,159,628
Acquired Reserves	$826,921
Income from Operations	$306,365
Deferred Developer Fee	$1,800,000
General Partner Equity	$1,500,000
Tax Credit Equity	$5,130,215

Permanent Financing

Source	Amount
Chase Bank - Tax-Exempt	$18,587,421
SF MOHCD - Gap Loan	$15,332,872
SFHA Seller Note	$27,762,277
Accrued Interest on Soft Loans	$1,159,628
Acquired Reserves	$826,921
Income from Operations	$306,365
Deferred Developer Fee	$1,800,000
General Partner Equity	$1,500,000
Tax Credit Equity	$26,340,378
TOTAL	**$93,615,862**

*Less Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$57,198,568
130% High Cost Adjustment:	No
Requested Eligible Basis (Acquisition):	$28,076,494
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$57,198,568
Qualified Basis (Acquisition):	$28,076,494
Applicable Rate:	3.24%
Maximum Annual Federal Credit, Rehabilitation:	$1,853,234
Maximum Annual Federal Credit, Acquisition:	$909,678
Total Maximum Annual Federal Credit:	$2,762,912
Approved Developer Fee (in Project Cost & Eligible Basis):	$5,500,000
Investor/Consultant:	RBC Community Investments
Federal Tax Credit Factor:	$0.95336

Except as allowed for projects basing cost on assumed third party debt, the "as if vacant" land value and the existing improvement value established at application for all projects, as well as the eligible basis amount derived from those values, shall not increase during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits. The sum of the third party debt encumbering the property may increase during subsequent reviews to reflect the actual amount.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	$85,275,062
Actual Eligible Basis:	$85,275,062
Unadjusted Threshold Basis Limit:	$58,360,622
Total Adjusted Threshold Basis Limit:	$92,793,389

Adjustments to Basis Limit

Required to Pay State or Federal Prevailing Wages/Financed by labor-affiliated organization employing construction workers paid at least state or federal prevailing wages

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income and Market Rate Units are Income Targeted between 50% AMI & 36% AMI: 39%

Cost Analysis and Line Item Review

Staff analysis of project costs to determine reasonableness found all fees to be within TCAC's underwriting guidelines and TCAC limitations. Annual operating expenses exceed the minimum operating expenses established in the Regulations, and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.24% of the qualified basis. Applicants are cautioned to consider the expected federal rate when negotiating with investors. TCAC's financial evaluation at project completion will determine the final allocation.

Significant Information / Additional Conditions

Hayes Valley North (originally known as Hayes Valley Apartments Phase I) is under the existing TCAC regulatory agreement CA-1995-069, which was recorded June 6, 1999. The Building Identification Numbers (BINs) assigned to this project's residential buildings are CA-95-06901 through CA-95-06907. This project's related project is Hayes Valley South (originally known as Hayes Valley Apartments II) which was awarded a new reservation of tax credits as a resyndication project as CA-19-592. Both Hayes Valley North and Hayes Valley South (Hayes Valley Apartments II) used the same TCAC number in their original TCAC regulator agreements, CA-95-069. However, they each had a separate TCAC regulatory agreements recorded for them, with Hayes Valley North using BINs CA-95-06901 through CA-95-069007 to identify its residential buildings in its TCAC regulatory agreement, and Hayes Valley South (Hayes Valley Apartments II) using BINs CA-95-06910 through CA-95-06917 to identify its residential buildings in its TCAC regulatory agreement, recorded in February 4, 2000.

The project's cost is estimated at $1,114,475 per unit. This cost is attributable to its location in the City and County of San Francisco and the value and cost of land and improvements that result in an acquisition cost of $341,667 per unit. In addition, this project will require the temporary relocation of its existing low-income tenants, and although of relatively short duration, it is still costly to temporarily relocate tenants within the city. The project's construction costs include prevailing wage requirements in addition to the complying with the City's goals and requirements for local hiring, including Housing Authority residents or former residents.

The San Francisco Housing Authority is providing this project with 34 HUD Section 8 project-based vouchers and 17 public housing ACC units converted under the RAD program to project-based vouchers.

The applicant's estimate of contractor profit, overhead and general requirement costs exceeds TCAC limit of 14%. The applicant is cautioned that at final review, prior to the issuance of the IRS 8609 forms, any costs or eligible basis that exceeds the limits will not be allowed.

Resyndication and Resyndication Transfer Event

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreement (CA-1995-069). To be eligible for a new award of tax credits, the owner must provide documentation with the Form 8609 request (the placed in service submission) that the acquisition date and the placed in service date both occurred after the existing federal 15 year compliance period was completed. For resyndications that were originally rehabilitation and acquisition, the resyndication acquisition date cannot occur before the last rehabilitation credit year of the original credit

As required by the IRS, the newly resyndicated project will continue to use the originally assigned Building Identification Numbers (BINs).

The newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement(s) and any deeper targeting levels in the new regulatory agreement(s) for the duration of the new regulatory agreement(s). Existing households determined to be income-qualified for purposes of IRC §42 credit during the 15-year compliance period are concurrently income-qualified households for purposes of the extended use agreement. As a result, any household determined to be income qualified at the time of move-in under the existing regulatory agreement (CA-95-069) is a qualified low-income household for the subsequent allocation (existing household eligibility is "grandfathered").

The project is a resyndication occurring concurrently with a Transfer Event without the distribution of Net Project Equity, and thus is waived form the requirements under TCAC Regulation Section 10320(b)(4)(B).

Standard Conditions

If applicant is receiving tax-exempt bond financing from other than CalHFA, the applicant shall apply for a bond allocation from the California Debt Limit Allocation Committee's next scheduled meeting, if not previously granted an allocation; shall have received an allocation from CDLAC; and, shall issue bonds within time limits specified by CDLAC.

The applicant anticipates financing more than 50% of the project aggregate basis with tax-exempt bond proceeds as calculated by the project tax professional. Therefore, the federal credit reserved for this project will not count against the annual ceiling.

State tax credit recipients are limited to cash distributions from project operations pursuant to California Revenue and Taxation Code Section 12206(d). By accepting the tax credit reservation, the applicant/owner is agreeing to comply with the statutory limitations and requirements.

TCAC makes the preliminary reservation only for the project specified above in the form presented, and involving the parties referred to in the application. No changes in the development team or the project as presented will be permitted without the express approval of TCAC.

The applicant must pay TCAC a reservation fee calculated in accordance with regulation. Additionally, TCAC requires the project owner to pay a monitoring fee before issuance of tax forms.

As project costs are preliminary estimates only, staff recommends that a reservation be made in the amount of federal credit and state credit shown above on condition that the final project costs be supported by itemized lender approved costs and certified costs after the buildings are placed in service.

All unexpended funds in reserve accounts established for the project must remain with the project to be used for the benefit of the property and/or its residents, except for the portion of any accounts funded with deferred developer fees.

All fees charged to the project must be within TCAC limitations. Fees in excess of these limitations will not be considered when determining the amount of credit when the project is placed-in-service.

The applicant/owner shall be subject to underwriting criteria set forth in Section 10327 of the regulations through the final feasibility analysis performed by TCAC at placed-in-service.

Credit awards are contingent upon applicant's acceptance of any revised total project cost, qualified basis and tax credit amount determined by TCAC in its final feasibility analysis.

CDLAC Additional Conditions
The applicant/owner is required to comply with the CDLAC Resolution. At the time of the TCAC placed in service review, TCAC staff will verify that the project is in compliance with all applicable items of CDLAC Resolution Exhibit A.